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Child Support Assurance: Wisconsin demonstration

by Tom Corbett

The state of Wisconsin is conducting a demonstration which, if successful, will almost certainly provide a model for legislation on a national scale. A Child Support Assurance Program, designed by Institute researchers, is now being tested in a number of Wisconsin counties. This program has four aims: to make sure that all parents share their incomes with their children, to reduce welfare dependency, to promote work, and to provide an income floor for children in single-parent households.

Need for reform

Just as the Great Depression demonstrated the need for Social Security and Unemployment Insurance, the growing number of children in single-parent homes who live in poverty has generated a force for reform of child support. The current system of providing financial support for these children is not doing the job.

The present system is a makeshift adaptation to greatly changed demographics. Aid to Families with Dependent Children (AFDC, originally ADC) was devised in an era when most single-parent families consisted of widows and their children, and women were generally expected to stay at home to care for their children. It was assumed that the program would gradually shrink as more and more widows were protected by the survivors' provisions of Old Age and Survivors' Insurance (OASI). Instead, AFDC expanded to support children whose fathers were alive and capable of contributing to their upkeep. In 1975, when program enrollment peaked, over 11 million people were receiving AFDC benefits. By 1984, after the program was pared down by restrictive legislation, the number was still over 10 million.[1]

No one foresaw the enormous growth in divorce, separation, and out-of-wedlock births. In the decade between 1970 and 1980 alone, the number of families headed by women doubled and the number of children with never-married mothers tripled.[2] It is now estimated that one out of every two children born today will spend part of his or her childhood in a single-parent home.[3]

Almost half of the children living in households headed by women are poor. The causes of their poverty are clear enough. The family contains one wage-earner instead of two; the wages of women are lower than those of men; and child support payments are often either deficient, erratic, or nonexistent. Although women who get divorces tend to get child support awards—the amounts of which vary widely from place to place, even under similar conditions—those who are separated or who were never married are much less likely to get settlements. In 1983, therefore, only about 58 percent of women potentially eligible for child support awards had received them.[4] Furthermore, only half of those who obtained awards received the full amount owed them, and a quarter received nothing. Altogether, more than half of all the children eligible for child support received nothing. The taxpayers, via AFDC, now shoulder responsibility for most of these poor children.

National awareness of this situation can be measured by the increasingly stringent laws passed by the Congress in an attempt to require absent parents to support their children. As early as 1950 Congress started to pursue absent parents of families on AFDC. By 1984 the focus had broadened to cover all children living with one parent. The measures enacted in the intervening years to secure more child support were not part of an overall plan: The IRS was authorized to withhold tax refunds from persons who owed child support that was past due; unemployment benefits were also to be withheld; federal salaries were to be garnished if support was not paid; and states were required to expedite their procedures for establishing paternity and obtaining child support awards. The federal government appeared to be using whatever leverage it had to collect child support. Finally, in 1984, by a unanimous vote in both houses of Congress, the federal government required the states to set up systems to withhold child support payments from wages after a one-month delinquency and to set up commissions to set standards for support obligations.

The Child Support Assurance Program

The Wisconsin Child Support Assurance Program addresses the inadequacies and inequities in the existing system. It has three basic features: (1) a simple formula to determine the amount of the child support award; (2) collection through withholding; and (3) an assured benefit.

The formula for child support, as determined by legislation and administrative rule, is a percentage of the absent parent's gross income: 17 percent for one child, 25 percent for two children, 29 percent for three children, 31 percent for four children, and 34 percent for five or more children. This percentage-of-income standard means that, except in unusual circumstances, all absent parents are treated alike. Child support payments are based only upon the income of the absent parent and the number of children to be supported.

The child support obligation, like social security and income taxes, will be automatically withheld from the paycheck of the obligor and transferred to the custodial parent. This simple procedure will ensure that owed child support will be immediately collected.

Finally, under the Wisconsin plan, all children who have an absent parent will be entitled to the child support paid by their absent parent or to a publicly assured child support benefit, whichever is larger. This assured level of support will reduce poverty among children in one-parent households, cut back greatly on the need for welfare, and provide an incentive for single custodial parents to work, since the child support payments will not be reduced—as are AFDC benefits—by any amount that they earn. To ensure that public subsidies do not go to wealthy families, custodial parents will be expected to contribute a small share of their income up to the amount of the public subsidy when the absent parent pays less than the assured benefit.

History of the program

The Child Support Assurance Program began in 1978 as part of a broad reform package for aiding the economically disadvantaged in Wisconsin. The reform was put together by the Wisconsin Welfare Reform Study Advisory Committee, chaired by Robert H. Haveman, past director of the Institute for Research on Poverty. From the outset, a close working relationship was established between the Institute and the Wisconsin Department of Health and Social Services (DHSS).

Most pieces of the reform package got no further than governmental awareness of the difficulties entailed in transforming them into practical programs. The child support reform, however, evolved into a major research effort under the direction of Irwin Garfinkel, also a former director of IRP. Since that time the project has been supported by funds provided by the state, the federal government, and the Ford Foundation.

From 1980 through 1982, child support was translated from an essentially abstract set of concepts into a detailed specification for a new program: eligibility, benefit structures, financing, integration with other programs, and administrative procedures were worked out. A model law was designed to implement the benefit and collection system in Wisconsin. Data bases were developed, as was the technical capacity, to simulate costs and benefits under various plans.

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Edited by E. Uhr. Unsigned articles written by Elizabeth Evanson and E. Uhr.

In February 1982 the Institute published a comprehensive three-volume report, *Child Support: Weaknesses of the Old and Features of a Proposed New System,*[5] describing the new plan and all the related issues, such as eligibility, collections, benefits, and administration, which revealed how and why the design choices had been made. In addition, it described a method for implementing the Child Support Assurance Program at the state level. The plan recommended two stages. First, the collection methods would be put into place (the percentage-of-income standard and the automatic withholding). At a later date the assured benefit would be introduced. The strategy was suggested because it was both fiscally conservative and cognizant of the complexities of the benefit side of the package.

By the beginning of 1983, the plan was ready for implementation on a demonstration basis.

The first practical steps toward implementing the reform took place when the legislature included, in its 1983–85 budget, directives for DHSS to (1) test the automatic wage withholding in ten counties, and (2) publish a percentage-of-income standard as a suggested guideline for establishing support obligations. The bill also contained a provision requiring all Wisconsin counties to begin to use immediate withholding in all new child support cases after July 1, 1987. This legislation was a watershed. Its modest scope effectively muted concerns that the automatic income withholding would generate a burden for employers and infringed on the constitutional rights of noncustodial parents. Furthermore, the language of the standard did not deprive the judiciary of flexibility in setting support amounts. The passage of the bill demonstrated to the federal government that the implementation of the plan was more than a scholarly exercise.

Needless to say, this venture into the real world met with obstacles. Ten counties had to be convinced that they should participate. Each one provided a unique set of problems to surmount.

The judicial community—judges, court commissioners, and attorneys—had to be persuaded that the percentage-of-income standard was an appropriate means for determining the amount of the child support obligation. Although it was generally agreed that use of the standard would simplify the process, save time, and lessen antagonism between parents, there was fear that an automatic determination of support amounts would fail to treat equitably those individuals whose circumstances set them outside the guidelines.

Some judges and commissioners feared the procedure would erode their discretion and reduce them to administrative functionaries. Some attorneys feared they would lose their livelihood. Noncustodial parents objected to the size of the awards, which, they claimed, did not take into account their current needs. They also resented income withholding because it implied a reluctance on their part voluntarily to provide support to their children.

After some initial opposition, the concern of the legal community diminished. In part, the approach of not mandating the standard worked in its favor. Judges and commissioners tried it, found it helpful, and convinced others to use it. The percentage-of-income standard appears to be gaining acceptance. Many judges and commissioners now use it on a routine basis.

The pilot counties have evidently been satisfied with the automatic income withholding plan, since more counties are now asking to become pilots. In September 1985, the Milwaukee County Board—representing Wisconsin's largest county—passed a resolution requesting that it become a pilot.

Benefits and costs

No social reform that adds substantially to the cost of government is likely to succeed at a time when the national debt is a paramount concern. One of the selling points of the Child Support Assurance Program is that, by returning the responsibility for the support of their children to absent parents, it can improve the economic well-being of poor children and perhaps simultaneously save public monies.

Both the benefits and costs of a child support assurance program will depend upon the level of the assured benefit, the incomes of noncustodial fathers, the contribution rates on noncustodial and custodial parents, the response of AFDC mothers to the improved work incentives of the new program, and the effectiveness of the new collection system.

In Table 1, estimates of net savings or costs and reductions in poverty and AFDC caseloads are presented for child support assurance programs with three different assured benefit levels for the state of Wisconsin.[6] Because Wisconsin has below-average family incomes and above-average AFDC benefits, the benefit-cost ratio would be even more favorable in most other states.[7] The benefit levels for the first child currently being considered—$2,500, $3,500, and $4,500—are all less than the Wisconsin AFDC benefit for one child and the child's custodial parent (currently $5559 per year). This is in keeping with the purpose of the program, which is to supplement earnings rather than substitute for them. Moreover, unlike welfare, child support benefits are for the children only, not for the custodial parent.

The estimates in the top panel of Table 1 assume that 100 percent of the noncustodial parent's child support obligation is collected. Under these circumstances, all three proposed plans result in net savings to the state and federal government, ranging from $72 million for the least generous plan to $36 million for the most generous plan. All of the plans reduce the poverty gap—the difference between a family's income and the poverty line—by about one-third. AFDC caseload reductions range from 7 percent to 19 percent.

The bottom panel presents estimates of the effects of assuming that collection effectiveness is no better than the national average. In this case, all three of the plans result in costs rather than savings—ranging from $9 million to $58 million. (The poverty gap reduction doesn't change very much because the assured benefit makes up for the shortfall in private child support collections.) The middle panel presents an estimate based on the assumption that collection enforcement will be about midway between 100 percent and the current national average. This panel provides the most realistic estimate of how effective collections will be, once immediate withholding is universally applied. In this case, the two least generous plans save $27 and $12 million respectively, while the most generous would cost an additional $14 million.

Because none of the estimates in the table incorporate any changes in work behavior on the part of the AFDC mothers

Table 1
Costs and Benefits of Alternative Child Support Assurance Plans in Wisconsin, 1983

Collection Rate		Assured Benefits for the 1st Child[a]		
		$2,500	$3,500	$4,500
100%	Net savings[b]	$72 million	$60 million	$36 million
	Poverty gap reduction[c]	32%	34%	36%
	AFDC caseload reduction	7%	12%	19%
Mid-range[d] estimate	Net savings	$27 million	$12 million	$−14 million
	Poverty gap reduction	31%	33%	35%
	AFDC caseload reduction	5%	10%	17%
Current[d] national average	Net savings	$−9 million	$−27 million	$−58 million
	Poverty gap reduction	29%	32%	34%
	AFDC caseload reduction	4%	9%	15%

Source: 1981 Wisconsin Basic Needs Study for non-AFDC sample; 1983 Wisconsin Computerized Reporting Network data for AFDC sample.
[a]Assured benefits for additional children are the same for all plans: $1,000 each for the 2nd and 3rd children, and $500 each for the 4th and 5th children. The noncustodial parent is assessed at 17%, 25%, 29%, 31%, 34%, for 1 up to 5 children, respectively. The custodial rate is the same as the noncustodial rate.
[b]Net savings are reported in 1983 dollars.
[c]The difference between a family's income and the poverty line.
[d]On average, about 70¢ of each dollar owed in child support is collected. The middle-range estimate is 86¢ per dollar owed. The averages are a bit misleading, however, in that upper-income men, who affect the cost of the program less, pay a higher percentage of their obligations than lower-income men. From the 1982 Current Population Survey it is estimated that the relationship of income to percentage paid is 39¢ per dollar owed plus 14¢ per dollar owed for each additional $1000 of income. This is the relationship used in these estimates. For the mid-range estimate it is assumed that the relationship of income to percentage paid will be 60¢ per dollar plus 14¢ per dollar owed for each additional $1000 of income.

Recent Institute Publications on Child Support

Irwin Garfinkel, *The Role of Child Support Insurance in Antipoverty Policy.* IRP Reprint no. 521.

Irwin Garfinkel and Donald Oellerich, "Noncustodial Fathers' Ability to Pay Child Support." IRP Discussion Paper, forthcoming.

Irwin Garfinkel and Elizabeth Uhr, *A New Approach to Child Support.* IRP Reprint no. 488.

Ann Nichols-Casebolt, Irwin Garfinkel, and Patrick Wong, "Reforming Wisconsin's Child Support System." IRP Discussion Paper no. 793–85.

in response to the improved work incentives in the Child Support Assurance Program, the reduction in welfare dependence, the poverty gap, and savings are all underestimated. Moreover, the underestimates are likely to be greater for the more generous plans, since the closer the assured benefit is to the welfare benefit, the more likely it is that AFDC mothers will choose to combine it with work. Unfortunately, there is no way to predict how much AFDC mothers will work in response to this new opportunity to combine work and assured child support. Nor can the labor supply effects of the support obligations on absent parents be predicted. These effects will tend to increase the costs of the plan. These will be among the principal questions addressed by the Wisconsin demonstration.

The future of the project

Two parts of the program have not yet been implemented: the assured benefit and the contribution from custodial parents receiving a benefit greater than the amount contributed by the absent parent.

In its 1984 child support legislation, Congress included a waiver allowing Wisconsin to use the money normally paid to the state as part of the AFDC match program to finance the assured benefit. The agreement extends from 1986 through 1994.

The 1985 Wisconsin budget bill for the 1986–87 biennium contains new child support legislation to permit additional counties to begin immediate withholding prior to July 1, 1987, when withholding becomes mandatory throughout the state. This bill also makes the percentage-of-income standard the presumptive child support award as of July 1987, which means that awards can depart from the standard only if the judge makes a written finding that justifies such a departure. The legislature also has given DHSS authority, subject to final approval by the Joint Finance Committee in 1986, to implement the assured benefit in several demonstration counties.

The stage is therefore set for demonstrating the entire program. It is too early for the evaluation of the collection part of the program to tell us how big the anticipated increase in child support revenues will be. No one can predict how the assured benefit will be received. Yet all who are associated with the reform are optimistic.

Wisconsin has a long tradition of innovation in the field of social welfare. It was the first state to enact a workers' compensation statute (in 1911) and the first to provide unemployment insurance (in 1932). It pioneered in industrial safety and sanitation, child labor laws, and the income tax. The Child Support Assurance Program, if it succeeds in accomplishing its several goals, will be a significant addition to this list. ■

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1 Committee on Ways and Means, U.S. House of Representatives, *Background Material and Data on Programs Within the Jurisdiction of the Committee on Ways and Means,* February 22, 1985 (Washington, D.C.: GPO), p. 4.

2 Ibid., p. 407.

3 Larry L. Bumpass, "Children and Marital Disruption: A Replication and an Update," *Demography, 21* (February 1984), 71-82.

4 U.S. Bureau of the Census, "Child Support and Alimony, 1983," *Current Population Reports,* Series P-23, no. 141 (Washington, D.C.: GPO, 1985).

5 Available as IRP Special Reports 32A ($5.00), 32B ($4.00), and 32C ($6.00).

6 The methodology used to obtain these estimates is described in Donald T. Oellerich and Irwin Garfinkel, "Distributional Impacts of Existing and Alternative Child Support Systems," *Policy Studies Journal, 12* (September 1983), 119–129. (Available as IRP Reprint no. 475.)

7 In states with lower AFDC benefits, the assured benefit level need not be so high to compete with welfare. Lower assured benefit levels will do much more in such states than in Wisconsin to reduce welfare dependence and poverty. In states with higher average incomes, noncustodial parents will pay more child support. That means that to achieve a given assured benefit level, citizens will be required to pay less.

The changing economic circumstances of children: Families losing ground

The success of government policy in shielding the elderly from economic adversity is apparent in the decline in their poverty rates. In contrast, recent studies portray a disturbing situation concerning changes in the well-being of children. The 1983 poverty rates of various age groups depict what Senator Daniel P. Moynihan termed, in the Godkin Lectures he delivered last year at Harvard, a "perversely inverted triangle": 23 percent among preschool children, 21 percent among school-aged children, 14 percent among the elderly, and 12 percent among nonelderly adults.[1]

Adjustment of poverty rates to include the value of such in-kind benefits as Medicare, Medicaid, food stamps, and subsidized housing further accentuates the pattern, reducing poverty among the elderly in 1983 to 3.3 percent, but leaving 18.2 percent of preschool children—almost one in five—poor. This tilt toward child poverty became manifest in 1974, when children under 18 displaced the elderly as the poorest among age groups.

A report of the Congressional Budget Office points out that households with children now account for over two-thirds of all poor people in the United States.[2] Yet the proportion of children within the population as a whole has declined over the past twenty years, just as the share represented by the elderly has grown. With the end of the baby boom in the 1960s and 1970s, the number of children under 15 fell by 7 percent; as the death rate declined over the same period, the number of persons 65 or older increased by 54 percent.[3] The enlargement and indexation of social security benefits in 1972 gave these growing numbers of elderly persons a measure of economic security that their voting power has continued to protect against proposed cutbacks. Meanwhile, the well-being of families with children has deteriorated.

In late 1985, concern over that deterioration prompted the Joint Economic Committee of the Congress to commission an Institute study that would look more broadly at factors underlying changes in the economic status of all families with children, whether poor or not (see box). The report highlights trends in family income, long-term changes in income inequality, and alterations in components of family income since 1967.

The fluctuating fortunes of families

The authors, Sheldon Danziger and Peter Gottschalk, examined changes in family income by analyzing Census data on different types of families (single- and two-parent, white and minority) and on the sources of household income—husbands' and wives' earnings as well as government transfers.

The report began with an overview of developments in the postwar period. As the economy surged in the first two decades after World War II, both one- and two-parent families enjoyed rapid increases in income. Over the period 1949–69, family income rose annually by an average of 6 percent. Growth then slowed, however: from 1967 to 1973, the incomes of two-parent families rose at an annual rate of 3 percent; that of female-headed families, at 1 percent. After 1973 incomes declined as economic stagnation reduced well-being of both single- and two-parent families with children.

Danziger and Gottschalk looked in more detail at changes in real incomes of families during the period from 1967 to 1984, the first and last years for which comparable microdata are available from the Census Bureau's annual Current Population Survey.[4] Three patterns characterized that span of years: mean family income grew from 1967 to 1973, remained stable from 1973 to 1979, then turned downward in the early 1980s.[5] Table 1 illustrates these trends and the relative experience of two-parent, female-headed, and white, black, and Hispanic family units. The unemployment rate is included in the table as an indicator of the changing state of the economy.

Experiences differed among two-parent and single-mother families, the latter enjoying little income growth in the more prosperous early period and larger declines later on. Overall, families were not much better off in 1984 than in 1967. Even though average incomes were 4 percent higher in 1984 than in 1967, they were 8 percent below the high point of 1973. These trends prevailed among families of different race and ethnicity, but all of those headed by women were worse off in 1984 than in 1967.

Census data do not take account of taxes, and because almost all types of families incurred tax increases that were larger

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Institute Publication

Sheldon Danziger and Peter Gottschalk, "How Have Families with Children Been Faring?" IRP Discussion Paper no. 801–85.

Table 1
Mean Real Income of Families with Children, and Unemployment Rates, Selected Years, 1967–1984
(1984 dollars)

	1967	1973	1979	1984	Percentage Change[a] 1967–73	1973–84	1967–84
All families with children	$28,369	$32,206	$31,138	$29,527	+13.5%	−8.3%	+4.1%
White	29,697	33,859	32,826	31,298	+14.0	−7.6	+5.4
Black	17,790	20,708	20,150	18,504	+16.4	−10.6	+4.0
Hispanic	n.a.	23,280	23,778	21,663	n.a.	−6.9	n.a.
All two-parent families with children	30,139	35,493	35,383	34,379	+17.8	−3.1	+14.1
White	30,963	36,276	35,976	34,954	+17.2	−3.6	+12.9
Black	21,121	27,040	28,645	28,096	+28.0	+3.9	+33.0
Hispanic	n.a.	26,247	27,539	25,777	n.a.	−2.5	n.a.
All female-headed families with children	14,184	14,371	14,530	13,257	+1.3	−7.8	−6.5
White	15,836	15,853	16,016	14,611	+0.1	−7.8	−7.7
Black	10,819	11,619	11,710	10,522	+7.4	−9.4	−2.9
Hispanic	n.a.	12,175	11,223	10,560	n.a.	−13.3	n.a.
Unemployment rate	3.8%	4.9%	5.8%	7.7%	+28.9	+57.1	+102.6

Source: Data in all the tables in this article from computations by Danziger and Gottschalk from the computer tapes from the March 1968, 1974, 1980, and 1985 Current Population Surveys.
Note: n.a. = Not available. The Census Bureau did not begin collecting annual data on persons of Hispanic origin in the Current Population Survey until 1972.
[a]Defined as 100 × (later-year mean − earlier-year mean)/earlier-year mean.

than the 4 percent rise in income over the 1967–84 period, the typical family had less income in 1984 than in 1967. Moreover, the rate of increase in personal taxes was larger for lower-income than for higher-income families.

The demographic shift toward single-parent families in recent years has been well documented. The proportion of such families doubled between 1967 and 1984, rising from 10 to 21 percent of all families. This shift in household structure has lowered mean incomes of all families, especially blacks. Single mothers now predominate among black households: in 1984 only 44 percent of black families with children had two parents present.

The tilt toward single parenthood has had an effect on black-white income comparisons. From 1967 to 1984 the income gap between black and white *two*-parent families narrowed, the ratio increasing from .68 to .80. The income ratio of black to white female-headed families also rose over that period, from .68 to .72. Yet the black-white income ratio for all families with children remained unaltered, at .60, because so many more black households than white became headed by women.

Cohort comparisons

To capture the life-cycle effect of income increases that occur as a family matures through its prime earnings years, Danziger and Gottschalk examined three separate cohorts of families with children: those aged 25–45 in three different years—1949, 1967, and 1984—and compared the average incomes of each cohort in the initial year and subsequent years.

Members of the 1949 cohort started out with an annual mean income of $14,733 (in 1984 dollars); by 1969, when they were aged 45–65, they had a mean income of $36,229, an average annual increase of 7.3 percent. The 1967 cohort started with a much higher average income, $27,047, benefiting from the prosperity that characterized the two decades after World War II, but in subsequent years they fared less well than had their predecessors: by 1984, when they were between 42 and 62 years old, they received $36,424 per year, an annual average rise of only 2 percent. The 1984 cohort began at $28,073, disappointingly close to the initial-year income of the 1967 cohort, and if the past trends are an indicator, their prospects for rapid increases in income are poor.

Increasing inequality

Since averages among the whole population cannot give us information on the experiences of families at different income levels, the authors divided the entire income distribution into five segments of equal size, then examined the mean incomes received by each of these groups of families in 1967, 1973, 1979, and 1984.

In each of those years, the degree of inequality of posttransfer income intensified. In 1967, the poorest 20 percent of families with children received 6.6 percent of all income, while the richest fifth received 38.5 percent. In 1984, those figures were 4.2 percent and 42.1 percent, meaning that the richest 20 percent of families had ten times the income of the poorest fifth, as compared to a 6-to-1 ratio in 1967.

Inequality has become substantially greater since 1967 among families of all three racial and ethnic groups. Over the 1967-84 period, the 40 percent of families with the highest incomes have gotten richer, while the other 60 percent of families have grown poorer. In the subperiod 1973-84, however, the mean income adjusted for inflation declined in every segment. The income decreases experienced by the five segments of the distribution, from poorest to richest, were 34 percent, 20 percent, 11 percent, 5 percent, and less than 2 percent.

This increase in inequality is a recent phenomenon. When the authors extended their analysis back to 1949, they found that the trend before 1967 was, in contrast, toward greater equality.

Although poverty among families declined from 1967 to 1973, the combination of declining incomes and rising inequality after 1973 inevitably led to a continuous climb in poverty rates, especially after 1979. In that year the incidence of poverty among all families with children stood at 12.7 percent, and by 1984 it had risen to 17.4 percent.

Blacks deviated from this overall pattern. Just as the gap in median income of blacks and whites narrowed among two-parent and among female-headed families, poverty rates also declined in both types of black households. Whereas 31.3 percent of black two-parent families were poor in 1967, in 1984 that rate was 19.3 percent. Among black female-headed families, the rate declined from 67.6 to 60.5 percent.

Accounting for family income changes

Despite greater government spending on social programs since 1967, the incomes of families with children have not kept up with consumer prices. Why? Danziger and Gottschalk pinpointed three causes: the greater number of families headed by women; the fact that more and more government transfers, most of them indexed for inflation, have gone to the elderly while the real value of transfers to poor nonelderly families has declined; and the fact that the earnings of those heading families with children have been gradually declining.

The reduction in market earnings of family heads is a particularly important issue, because it bears on the ability of able-bodied parents to escape poverty by their own efforts. Among all families with children, the proportion headed by a "low earner"—defined by Danziger and Gottschalk to mean one who, working all year at his or her current weekly wage, could not earn the equivalent of a poverty-line income for a family of four—rose from about 20 to about 30 percent over the period 1967-84 (see Table 2).

Table 2
Incidence of Low Weekly Earnings of Heads of Families, 1967-1984

Family Head	1967	1973	1979	1984
All families with children	20.8%	21.5%	23.8%	29.9%
White	17.1	17.7	19.6	25.5
Black	48.3	45.6	46.9	51.5
Hispanic	n.a.	32.8	34.6	44.0
All two-parent families with children[a]	14.3	12.7	14.1	19.5
White	12.4	11.4	12.6	17.7
Black	32.1	24.5	26.6	32.8
Hispanic	n.a.	19.2	22.2	30.1
All female-headed families with children	71.1	68.9	61.9	65.5
White	64.8	63.8	56.7	61.4
Black	83.9	78.4	71.7	72.7
Hispanic	n.a.	81.6	75.4	79.8

Note: "Low earners" are family heads with weekly earnings below $204 per week in constant 1984 dollars. Such persons could not earn the poverty-line income for a family of four even if they worked 52 weeks a year at their current weekly wage.
[a]Husbands are classified as the heads of two-parent families.

Table 3
Dependence on Cash Transfers of Pretransfer Poor Households and Reduction in Poverty due to Cash Transfers, 1967–1984

	Percentage of Pretransfer Poor Households Receiving Cash Transfers				Percentage Reduction in the Number of Persons in Poverty Due to Cash Transfers[a]			
	1967	1973	1979	1984	1967	1973	1979	1984
All families with children	51.4	71.0	71.8	68.5	−15.2	−24.7	−23.2	−15.5
White	49.3	66.8	67.1	64.2	−18.3	−28.5	−25.7	−17.6
Black	55.7	79.4	81.7	79.0	−9.8	−17.9	−19.1	−12.2
Hispanic	n.a.	70.1	69.1	66.7	n.a.	−19.9	−15.8	−10.4
All two-parent families with children	38.5	56.8	60.1	56.4	−13.6	−25.4	−26.3	−18.7
White	39.3	56.6	57.9	55.1	−15.6	−27.9	−26.9	−19.1
Black	36.8	57.3	70.1	64.5	−8.7	−17.4	−25.1	−18.2
Hispanic	n.a.	52.6	52.8	48.8	n.a.	−20.2	−15.9	−10.9
All female-headed families with children	71.1	82.6	80.8	77.8	−17.9	−23.8	−19.9	−12.0
White	70.2	78.2	77.1	73.9	−25.1	−29.1	−23.6	−14.0
Black	72.3	88.6	85.7	83.2	−11.2	−18.0	−16.5	−9.9
Hispanic	n.a.	86.9	84.4	83.1	n.a.	−19.6	−15.1	−9.3

[a]Defined as (posttransfer poverty − pretransfer poverty)/pretransfer poverty × 100. For example, for all families with children the posttransfer poverty rate for 1984 was 17.4 percent. The pretransfer rate was 20.6 percent, so −15.5 is the percentage difference between the two rates.

Because the incidence of low earnings rose more rapidly than did the incidence of poverty, Danziger and Gottschalk investigated the other sources of household income that must have moderated the trend toward poverty. In two-parent families, that source proved to be the earnings of wives. Even though husbands' earnings remained the most important income component for white, black, and Hispanic two-parent families, the share of family income contributed by wives increased steadily. Earnings of white wives rose from 10.6 percent in 1967 to 18 percent of family income in 1984, accounting for three-quarters of their total family income increase; for blacks over the same years, wives' earnings rose from 19.4 to 31.1 percent of family income, accounting for two-thirds of their total family income rise; for Hispanics, the increase was from 14.4 percent in 1973 (data not available for 1967) to 19.4 percent in 1984.

In all cases, wives worked more hours and their average wages per hour rose. But because more time in the marketplace means less time for leisure activities and household production, the authors pointed out that these income gains overstate improvements in well-being. Nevertheless, without the increased contribution of working wives, mean family income of all two-parent families would not have grown as much as it did, and poverty and income inequality would have been greater.

Changes in government cash transfers are another important source of income alterations. The diminishing effectiveness of government efforts to raise the well-being of families is shown in Table 3. Both transfer recipiency and the poverty-reducing effects of cash benefits rose from 1967 to 1973, stayed about the same until 1979, then declined through 1984. A larger proportion of two-parent families, but a smaller percentage of single-mother households, were lifted out of poverty by cash transfers in 1984 than in 1967. This difference results from the fact that more two-parent families received indexed social insurance benefits, such as social security and unemployment compensation, while single mothers rely primarily on Aid to Families with Dependent Children (AFDC), whose benefits are not protected against either inflation or the reluctance of state legislatures to increase the AFDC guarantee in a time of fiscal stringency.

Families and social policy

The facts presented in the report are cause for alarm over the present condition and future prospects of families with children. Is a course of action indicated? Samuel Preston, a sociologist and demographer, has urged that the nation take responsibility for its children:

If we care about our collective future rather than simply about our futures as individuals we are faced with the question of how best to safeguard the human and material resources represented by children. These resources have not been carefully guarded in the past two decades. Rather than assuming collective responsibility, as has been done in the case of the elderly, U.S. society has chosen to place almost exclusive responsibility for the care of children on the nuclear family. Marital instability, however, has much reduced the capacity of the family to care for its own children. Hence insisting that families alone care for the young would seem to be an evasion of collective responsibility rather than a conscious decision about the best way to provide for the future.[6]

Senator Moynihan agrees. He recently recommended that government transfers be directed at intact families:

Among the major democracies in the world, we are the only country not to develop some kind of policy for family allowances. This is even routine in Canada. Some might characterize the AFDC program as a family allowance, but it's typically the broken families that are being aided. Why not a family allowance to support the traditional family and help hold it together? Our welfare benefits should be aimed at the family units, not the individual.[7]

Several other policy changes have been advocated to improve the condition of families with children. Tax reform has been urged, especially expansion and extension of the Earned Income Tax Credit and other changes to reduce the burden of taxation on poor working families (these measures are incorporated in the tax-reform proposals now before Congress). Other policy recommendations include continued experimentation with education, employment, and training programs to enhance the earnings capacity of parents, and enactment of a national minimum benefit under the Aid to Families with Dependent Children program. As described in the accompanying article in this issue of *Focus*, an equitable system of child support is a major avenue to improve the welfare of children in single-parent homes.

Is there a national will for public policy to better the condition of society's youngest members? The expansion of the social security system indicates a consensus that the aged should be supported by society. The absence of a social security system for all families with children may seem to indicate a contrasting consensus, that parents and not society must take full responsibility for support of their children. Or is there an emerging sense, as articulated by Preston and Moynihan, that society has an obligation to the young as well as the old? ■

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1 "Family and Nation," The Godkin Lectures, Harvard University, April 8–9, 1985, p. 13.

2 Congressional Budget Office, *Reducing Poverty among Children* (Washington, D.C.: CBO, May 1985), p. xi. See also U.S. House of Representatives, Committee on Ways and Means, *Children in Poverty* (Washington, D.C.: GPO, May 22, 1985; prepared for the Committee by the Congressional Research Service and the Congressional Budget Office), p. 3.

3 Samuel H. Preston, "Children and the Elderly in the U.S.," *Scientific American, 251* (December 1984), 44.

4 The report values cash incomes (after public transfers, but before taxes) over the years in terms of 1984 dollars, using the Consumer Price Index (CPI) as the deflator—i.e., to remove the effects of price inflation. Another method would be to apply as deflator the CPI-X, which uses a rental-equivalence approach to the cost of homeownership, which soared in the 1970s as both home prices and interest rates rose. If the CPI-X had been applied, the percentage increase in real incomes for all families between 1967 and 1984, shown in Table 1, would be 13.9 rather than 4.1 percent, and incomes among female-headed families over those years would register a 3.3 percent increase rather than the decrease shown.

5 Because the number of families has increased since 1973 while family size has declined, it might seem that children could be better off even if family incomes decreased, because reduced family income was shared by fewer family members. In a separate analysis Danziger and Gottschalk showed that the trends they found for family income were basically the same as those for per capita family income and for per capita family income per child.

6 Preston, p. 49.

7 "We Can't Avoid Family Policy Much Longer," *Challenge* (September-October 1985), p. 17.

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FIGHTING POVERTY: WHAT WORKS AND WHAT DOESN'T

edited by

Sheldon H. Danziger

and

Daniel H. Weinberg

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Fighting Poverty contains the papers, revised and edited, which were presented at the conference "Poverty and Policy: Retrospect and Prospects," held in Williamsburg, Va., December 1984 (summarized in *Focus* 8:2), sponsored by the Institute and the U.S. Department of Health and Human Services. The volume's contents are as follows:

Private aid for the needy

The task of providing material aid to the needy has been shared by the public and private sectors since Elizabethan times. Sometimes one sector, sometimes the other, has been viewed as the primary vehicle for dealing with the problems of the poor.

The heyday of the private charity organizations in the United States occurred after the Civil War and extended into the 1920s. Private groups not only took it upon themselves to assist the poor, but they also actively discouraged the use of public funds for that purpose.

During the Great Depression and more recently the War on Poverty, major responsibility for aiding the poor shifted to government. National welfare programs such as Supplemental Security Income and Food Stamps, shared state and federal programs such as Aid to Families with Dependent Children, and community programs such as General Assistance now provide cash and in-kind aid. Subject to strict accounting procedures and committed to the principle of basing grants on income and family size, government programs treat the poor in a standardized fashion, distributing welfare in accordance with inflexible laws and regulations that determine eligibility, the size of benefits, and the conditions under which they can be received.

The public system has been accused of being unresponsive to the needs of individuals. Standardization, it is said, may foster inequities of other sorts, in that those with the greatest need do not necessarily receive the greatest benefits. Benefits vary from one locale to another, and certain categories of the poor (such as couples without children and individuals living alone) are ineligible for most forms of assistance (the major exception is Food Stamps). As public welfare has been cut back in recent years, policymakers are looking once more to the private sector in hopes that it can fill some of the gaps in the public "safety net." Can it?

The role of the private sector

In his monograph *Private Benefits: Material Assistance in the Private Sector* (see box), Michael Sosin assesses the role of the private sector in supplying the material needs of the poor. Making use of an extensive questionnaire administered to public welfare officials, a detailed 12-county survey of all social agencies, both private and public, and intensive case studies of the programs and community institutions in four counties located in the Southwest, Southeast, Midwest, and Northeast, Sosin analyzes the private sector's contributions and examines the combination of factors that limit its size and potential.

The size of the private sector

The private sector is very small compared to the public sector. In the last thirty years government spending on social welfare grew from $32.4 billion to $532 billion, whereas private-sector expenditures on philanthropy grew from $1.7 billion to $17.3 billion. These figures, however, overstate the amount of assistance provided to the needy by the private sector. Philanthropy can be directed at the arts as well as at social welfare, and tends to provide services that reach large segments of the population and those that require a professional staff: services such as education, counseling, recreation, and the provision of information. Only between 10 and 20 percent of private social welfare agencies dispense any material assistance, and most of these agencies are also involved in other activities, ranging from family counseling to blood banks. Furthermore the common and powerful national organizations such as the YMCA, the Red Cross, the American Cancer Society, and the Boy Scouts do little to provide for the financial needs of the poor. The United Way funds some agencies, such as the Salvation Army, that concentrate on the needy, but it too is more likely to fund agencies that deal with individual and family life programs, foster care, recreation, and particularly the problems of children. Private agencies, which are in competition for funds and legitimacy, often support causes that have a broad popular base, or else they seek specialized niches (the Red Cross, for example, concentrates on disaster relief). Those organizations with a moral commitment reflected in their mission tend to serve the poor. Therefore, religious organizations are the ones which are most likely to offer shelter, meal programs, food pantries, clothes, furniture, and other forms of assistance to the needy.

The relationship of needs to resources

In both his statistical analyses and his case studies, Sosin finds that there is little relationship between the needs of a community and the private resources available to fill those needs. Community norms and structures appear to work against the provision of aid to certain groups. For example, in one Southern community, although some effort is made to deal with transients—who are a highly visible problem—little assistance is forthcoming to the needy local population, which is composed principally of Hispanics and blacks. Elsewhere

PRIVATE BENEFITS: MATERIAL ASSISTANCE IN THE PRIVATE SECTOR

by

Michael Sosin

Academic Press, 1986
6277 Sea Harbor Drive
Orlando, FL 32821
$19.95

AFDC recipients receive no aid from private agencies, on the grounds that they are adequately served by the public programs. In other communities those receiving public welfare are assisted most fully by the private sector. In general, poor communities tend to have fewer private agencies and those communities with the greatest ability to meet material needs have the smallest poverty-related problems.

Just as the number of agencies has no bearing on need, so too the funding of agencies depends on various factors such as mission and politics and seldom reflects need. Ironically, agencies aiding the poor are less likely than other sorts of agencies to receive funding from the public sector.

Given the limits on their growth, private agencies were unable to expand when need mounted during the recessions of the early 1980s, as public resources were cut back. The private agencies tended to resort instead to rationing. Sosin documents their techniques: limiting the circumstances to which they would respond, reducing the amount of aid offered, discouraging repeated requests for aid, and establishing intake or referral organizations to act as gatekeepers, turning away prospective clients. They were only mildly effective in fighting for the rights of the needy. Although some groups, such as Community Action organizations, advocate greater public support for their clients, religious agencies tend not to participate in advocacy. They see their role instead as dealing directly with the needy.

Clients' views of private agencies

Although only a small number of clients were asked to give their views of private agencies, they showed surprising unanimity in preferring the treatment received from the private sector over that dispensed at public agencies. Not all private agencies are well regarded, but quick service, few demeaning questions and requirements, and a sympathetic, nonstigmatizing attitude often seem to prevail. Although clients go first to the public sector, where the benefits are larger, and are initially reluctant to use private agencies, once that reluctance is overcome they prefer the private sector:

> Many of the studied agencies are . . . likely to mitigate problems in a humane manner. Unhampered by the complicated regulations that impede public welfare agencies, they act speedily and ask few questions. Those genuinely interested in the needy are able to turn a negative experience into a positive one. Scholars often believe that public welfare is superior because it is legally a right, while charity is demeaning. But the distinction between charity and welfare, so important in social theory, apparently was not important to the poor in our sample; they were more interested in whether their needs were met and whether they were treated with dignity (p. 140).

Evaluating the private sector

Private agencies, Sosin demonstrates, are of limited aid to the poor. They are able to provide supplementary benefits at best, such as temporary shelter, food for a few days, help with utility bills, or aid in recovering from a disaster. They do not cover continuing needs.

Nevertheless, although the private network is limited by competition with other agencies, by stress on professionalism, and by constricted sources of funds, it plays an important role:

> Private agencies exist in every community and save many from starvation and homelessness. Often they provide the only source of shelter to hundreds of thousands of people. . . . Private food programs provide for many who would otherwise go hungry. . . . Although public programs may in theory meet the same needs, overlap is only theoretical owing to limited budgets; the private agencies indeed fill needs (p. 160).

Although Sosin finds much to criticize in the private sector and supports the view that the private sector cannot replace public income maintenance programs as the principal means of support for the needy, he does envision an increased role for private agencies. He points to a new outlook on the part of social workers, who see material aid as a necessary adjunct of counseling. He suggests a greater advocacy role for the private sector and favors increasing the percentage of United Way funds allocated to material aid. In the long run he sees the possibility of the private sector taking responsibility for those public programs, such as Emergency Assistance, that require discretion and a quick response. He also endorses public sector funding for certain private agencies to enable them to deal with the immediate pressing needs of the poor. He is hopeful that "by creating a division of labor between the public and private sectors, it will be possible to meet more fully the needs of the impoverished: to combine humane treatment, equity, and a potential for social change in a complex, impersonal, persistent social order" (p. 178). ■

Medicaid: The cost of deficient information

With support from the IBM Corporation, a team of Institute economists has analyzed how the Medicaid program operates in Wisconsin. The study focuses on the costs incurred as a result of deficiencies in communication among the various parties involved in that complex system of medical assistance for the poor.[1]

In designing the study, Ralph Andreano, Institute affiliate and professor of economics, and his colleagues used as their counterfactual a hypothetical world in which information flows in a perfect manner between the parties in the system—the state, the health care providers, and the patients. In this world, when a patient enters a physician's office, the doctor can immediately and accurately determine whether the person is eligible for Medicaid, whether he or she is already enrolled, and what particular services are reimbursable under Medicaid rules. The physician's office staff knows exactly how to go about obtaining reimbursement as well, following specified procedures. The request for reimbursement is promptly transmitted to the state (or, as in Wisconsin, the fiscal agent designated by the state), which promptly remits the amount due.

Although this world contrasts sharply with Medicaid reality, posing it as the counterfactual helped Andreano's team perceive five separate areas of information exchange, from start of service to receipt of payment by the provider: (1) recipient certification, (2) policy concerning benefits covered, (3) claims for reimbursement, (4) advice on status of claims, (5) payments to providers.

The researchers selected a random sample of 371 claims that were rejected at some stage, owing to information error, and tracked those claims through the labyrinth of submission, rejection, resubmission, appeal, and final resolution, estimating the dollar amount paid by state and provider in order to communicate with one another at each stage. They applied the sample statistics thus obtained to the universe of all rejected claims (some ultimately paid) in one calendar year, 1983, to obtain an estimate of total costs per year resulting from imperfect information. Those estimates for the state were then projected to the nation as a whole.

Within each of the five information functions, the research distinguished between "operating costs" of communication and "costs resulting from deficient information." Operating costs are those built into the system in order to communicate. Deficient-information costs are those incurred because communication is not complete. The latter presumably could be reduced by some more efficient form of transmittal. The five areas, and a simplified sketch of the costs within each, are as follows.

1. *Recipient certification*

Like most other states, Wisconsin issues to Medicaid recipients a paper identification card that specifies what range of services may be reimbursed, the limitations on providers or on the services that the recipient may utilize, and whether there is other insurance coverage to be billed before Medicaid will pay. Andreano and his colleagues estimated that the operating costs to the state for issuing the cards amounted to $588,000 in 1983. (These and other dollar amounts are listed in Table 1.)

The cards are printed and mailed monthly, certifying recipients for eligibility only for the ensuing month. Sometimes a patient does not bring the card or the provider does not check the card when services are administered, and thus not all of the required information is transcribed. As a result claims may be denied, and the providers must pay the costs of obtaining the necessary data and resubmitting the claims. The state bears the cost of processing the rejected claims. The state also incurs costs when, after issuing a card, its certifying agencies determine that the bearer was not actually eligible for the services specified on the card. Under Wisconsin's "good faith" policy, the state must nevertheless reimburse providers for services rendered during the month for which the card was issued.

The annual price paid by the state as a result of informational errors concerning recipient certification was estimated to be $1.8 million. Andreano's team found that providers paid far more as a result of faulty information in this area: over $30 million per year.

2. *State policy concerning benefits*

Wisconsin distributes handbooks, updated periodically, explaining to providers what services are reimbursable and what the limitations and conditions for reimbursement are. Benefit coverage and conditions are complex, however, and providers are not always certain that a particular service is covered—or, when they feel certain, they may subsequently learn that such was not the case. A doctor's staff may phone or write the state to seek clarification before submitting a claim, or, when a claim is submitted and then rejected on the grounds of noncoverage, they often contact the state to learn why. The state must process rejected claims, and its personnel must spend time answering the providers' queries.

The state's estimated operating costs related to the handbooks amounted to about $82,000 a year. Its efforts resulting from deficient information—answering questions and processing claims that were rejected owing to noncoverage—cost $224,000 annually. The providers paid much more in order to clarify policy before or after submitting claims, or suffered losses because their reimbursement was delayed while a claim went through the rejection and clarification process. Those costs came to almost $17 million a year.

3. *Claims and billing for reimbursement*

Providers are required to submit claims for reimbursement in specified formats that vary by groups of service, and they must follow particular billing regulations. The operating costs in this area are those paid by the state for producing and mailing the forms, by the providers for completing and mailing the forms, and by the state for then entering the data into the processing system.

In the ideal world of perfect information exchange, the provider receives payment immediately upon submitting the claim. In the world of Medicaid, providers experience losses when claims are rejected because they were not filed properly; the state and providers incur losses when questions are raised and then answered; providers lose when reimbursement is delayed owing to the need to resubmit, and they also bear the administrative costs of resubmission. The state must then process resubmissions.

The researchers estimated that annual operating costs connected with submission of claims were $1.4 million for the state, $407,000 for providers. The deficient-information costs to the state were $405,000 a year, while providers paid over $24 million to cover expenses related to filing errors.

4. *Advice concerning the status of claims*

After filing a claim, the provider receives a statement describing the adjudication status—whether the claim is to be paid (and the reason for payment cutback, if any), or denied, or is still being processed. Operating costs cover printing and mailing the statements: $439,000 paid by the state each year. Problem costs are those borne by the state and providers for queries and responses about the status of claims. Sometimes providers submit a duplicate claim before they learn the status of the first. Duplicate claims cost both state and provider—the latter bears administrative costs of submission, the former of processing. Andreano's team estimated that the state's annual expenses to rectify deficient information regarding claim status was $154,000; providers paid $72,000.

Table 1

Summary of Estimated Annual Informational Costs of Medicaid in Wisconsin (in thousands of dollars)

Information Function	Operating Costs	Deficient-Information Costs
1. Recipient certification	State $588.1	State $1,845.9
		Provider $30,124.2
2. Benefits provided under Medicaid	State $82.2	State $224.4
		Provider $16,863.3
3. Claims for reimbursement	State $1,398.3	State $405.3
	Provider $407.3	Provider $24,394.9
4. Advice on status of claims	State $439.0	State $153.7
		Provider $71.7
5. Payments to providers	State $82.3	Provider $1,022.2
Total	State $2,589.9	State $2,629.3
	Provider $407.3	Provider $72,476.3

5. *Payments to providers for favorably adjudicated claims*

Once a claim has wound its way through this complicated process and is deemed valid, it might seem that payment would be promptly forthcoming. Not so. After adjudication, the state must order and complete the "checkwrite," must merge the checks with the statements on the status of claims, and then mail the checks to providers, who must deposit the checks in their accounts before the process is complete. Operating cost to the state, for printing and mailing checks: $82,000 a year. The deficient-information cost in this area relates solely to the payment transmittal lag—the period between final adjudication of the claim and the time the provider has deposited payment. The interest lost on payments owing to the delay, in contrast to an ideal world of immediate payment (e.g., by electronic transfer), amounts to an estimated provider cost of $1 million annually.

The bottom line

Table 1 summarizes the cost estimates produced by the study. The operating and deficient-information costs borne by the state are almost equal, at about $2.6 million. The operating

continued on p. 24

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A comprehensive view of disability policy

The disablement of a breadwinner is inevitably a disaster for that person and his or her family. From an economic standpoint, disability can be even more devastating than death, since it often entails not only loss of income but added costs to provide care and medical treatment for the handicapped family member. In advanced industrial countries, therefore, a strong moral commitment exists to assist the disabled. This willingness to share the costs of disability takes different forms in different countries and has broad social and economic ramifications. But regardless of their different approaches to the problem, Western nations have in common that over the decade 1968–78 the cost of disability policy rose dramatically, as the number of recipients, the generosity of benefits, and, hence, total spending grew. Many countries experienced rates of growth in expenditures in real terms over the period of over 10 percent per year (see Table 1).

In the era of slowed economic growth and high unemployment of the 1980s, policy debates have begun to question the existing approach to disability policy. To what extent is society willing to share the costs of disability or undertake investments to reduce those costs? And what configuration of policies will achieve the results in the most efficient and equitable manner?

Two books now available throw light on the complicated public systems that serve the disabled. *Disability and Work: The Economics of American Policy,* by Richard V. Burkhauser and Robert H. Haveman,[1] described and analyzed the programs serving the disabled in the United States. Now, in *Public Policy toward Disabled Workers: Cross-National Analyses of Economic Impacts,* Burkhauser and Haveman are joined by Victor Halberstadt[2] in analyzing the systems in seven industrialized countries—West Germany, France, Israel, Italy, the Netherlands, Sweden, and the United Kingdom (see box, p. 18). The authors compare the systems to one another and to U.S. policy, and, within an economic framework, assess how well they work.

The size of the problem

The term "disability" represents a range of conditions differently measured not only from country to country but from program to program within a country. Yet the general characteristics of the disabled are remarkably similar overall. They tend to be the older workers and those with relatively low educational levels and occupational status. When a country has a racial or national minority, members of the minority are more likely to be disabled than members of the majority population. Except in the aftermath of war, women have a higher incidence of disability than do men. The disabled are more likely to be unmarried and live alone than others in the working-aged population.

The size of the disabled population—from 5 to 10 percent of the working-age group—leads to an estimate that the output loss from their disabilities results in a reduction of between 3 and 7 percent in national income, not including the lost productivity from resources diverted to provide training and other services to the disabled or the reduction in work effort of those required to finance income transfers or services (reductions implicit in every tax program). All in all the loss is estimated to total as much as 6 to 8 percent of national income.

Table 1
Growth of Expenditures for Disability Programs Providing Income Support, Eight Countries, 1968–1978

	Percentage of National Government Expenditure		Annual Rate of Real Growth
	1968	1978	ca. 1968–78
Federal Republic of Germany	12.9	15.7	5.3
France (1974–77)	12.3	6.6	6.7
Israel	1.6	2.9	23.7
Italy	10.4	25.6	12.7
Netherlands	5.8	13.6	18.6
Sweden	2.6	4.3	11.7
United Kingdom	3.8	2.9	.5
United States	5.8	8.0	6.3

Source: Haveman, Halberstadt, and Burkhauser, *Public Policy toward Disabled Workers,* Table 5.1, pp. 84–85.
Note: In some cases, program data are taken from reports for years slightly earlier or later than 1968 and 1978. Data limitations for France made it necessary to use the four-year period 1974–77.

PUBLIC POLICY TOWARD DISABLED WORKERS: CROSS-NATIONAL ANALYSES OF ECONOMIC IMPACTS

by

Robert H. Haveman
Victor Halberstadt
Richard V. Burkhauser

Cornell University Press, 1984
124 Roberts Place
Ithaca, NY 14850

$34.95

Types of policies employed

The authors classify disability policies into three groups: ameliorative, corrective, and preventive. *Public Policy toward Disabled Workers* examines the first two.

Ameliorative policies are those aimed at easing the burden of impairments on, and the loss of income by, handicapped people. They consist for the most part of income transfer programs, but include in-kind transfers such as housing allowances and subsidized health care. They may also include such adaptive devices as wheelchairs and specially designed automobiles.

Corrective policies are those which attempt to remove or reduce the effects of the handicap or alter the conditions under which the disabled person functions. The goal of such policies is generally to promote a return to work. Rehabilitation programs which retrain a person who can no longer engage in his or her previous work, sheltered workshops, public service employment, hiring quotas, jobs reserved for the handicapped, equal-access regulations, which mandate modification of public buildings, sidewalks, etc., and subsidies to those who hire the handicapped are all considered corrective measures.

The authors find that the countries studied tend to select a mix of programs that reflects their culture and tradition. The Netherlands, for example, has very generous transfer programs for large numbers of recipients. France, on the other hand, has only recently supplemented family responsibility with somewhat meager income transfer programs. The United Kingdom and Israel rely heavily on in-kind transfers to the disabled, emphasizing medical care, housing, and mobility. Sweden and the Federal Republic of Germany show the greatest commitment to reintegrating the disabled into the work force. They stress testing, training, rehabilitation, and direct work provision. The United States, with its commitment to providing opportunity for all, has been the only country to embrace the concept of equal access to public facilities.

In general, all the countries studied have an enormous array of programs, some well and some less well integrated. The authors divide the nations into two groups according to the degree to which their transfer, rehabilitation, and work programs are coordinated. But "well-integrated" here is clearly a relative term. In the United States, whose disability system the authors describe as "mature and developed," there are over fifty different programs that deal with the disabled.

How well do disability programs work?

The authors then attempt to evaluate the effectiveness of the two approaches, ameliorative and corrective.

Ameliorative remedies are examined in terms of their "adequacy," based on the median income of each country. In terms of program generosity, the Netherlands, Israel, Sweden, and Italy rank high. Next comes the United Kingdom. France, the United States, and the Federal Republic of Germany rank low. In assessing the benefit levels in the United States, the authors find, however, that most workers who are sufficiently disabled to be eligible for some combination of Social Security Disability Insurance, Supplemental Security Income, and Workers' Compensation are likely to have incomes above the poverty line. Those ineligible for major disability programs are more likely to be in poverty.

Corrective programs, which are designed to increase the work and earnings of the disabled and can therefore be expected to reduce the costs to society of disability, are subjected by the authors to cost-benefit analysis.

Application of such analyses has produced mixed results. Vocational training programs in the United States appear to be cost effective, at least when efforts are concentrated on those with the best chances of returning to work. Studies of sheltered workshops show them to be less effective. The authors judge that "the unmeasured benefits to society (for example, the social and psychological well-being of workers or the freeing of care time of other family members) must be substantial in order to compensate for the measured net social costs attributed to the enterprise activities" (p. 163). And some of the corrective policies entailing equal access to public facilities seem quite impractical. It has been estimated, for example, that modifying the nation's buses to accommodate wheelchairs—which would serve only 7 percent of the handicapped population—would average out to a general cost of $38 per trip, whereas bus rides by the general public cost $.85 per trip.

Evaluations of such measures as employment subsidies and public programs also yield mixed results. The authors draw the conclusion that there is not a strong case to be made for corrective measures as opposed to ameliorative ones, especially in a period of high unemployment.

Disability benefits and labor supply

The relationship between the growth of disability benefits and the decline in the labor supply of older working-age men is explored (see box for additional work on this topic). Models of this linkage have been tested empirically in the United States, where it is estimated that one-quarter of the decline in the labor force participation rate of older workers between 1968 and 1978 (which dropped 2.2 percent a year) is attributable to the increased generosity of disability benefits.[3]

Data from other countries reveal the same pattern. The authors suggest that as economic growth slowed, older workers and those with impairments were laid off and found it increasingly difficult to obtain work. Public policy in all the countries studied responded by relaxing eligibility requirements for disability programs and increasing benefits. Disability income support programs became, therefore, a means for coping with unemployment by encouraging early retirement. The effect of this policy was to increase the tax burden on the working population as the ratio of the disabled receiving benefits to the employed population increased.

The extremes to which this policy has been carried are evident from data provided in the late 1970s by Victor Halberstadt. He pointed out that 10 percent of the working-age population of the Netherlands received disability benefits in 1977; that over half of male workers over the age of 57 received disability or similar benefits, and transfers provided 26.6 percent of disposable income. He said, "The growth rate of beneficiaries of disability benefits is slightly astonishing. To a large extent this is nothing more than an expensive way of providing unemployment benefits and of retiring people at an early age."[4]

Institute Publications on Disability

Robert H. Haveman and Barbara Wolfe, "Disability Transfers, Health Status, and Economic Behavior." IRP Discussion Paper no. 767-84.

Robert H. Haveman and Barbara Wolfe, "Disability Status as an Unobservable: Estimates from a Structural Model." IRP Discussion Paper no. 775-84.

Victor Halberstadt and Robert H. Haveman, *Public Policies for Disabled Workers.* IRP Reprint no. 435. 1981.

Robert H. Haveman and Barbara Wolfe, *Disability and Work Effort: A Probabilistic Choice Analysis of the Labor Supply Decisions of Older Men.* IRP Reprint no. 479. 1983.

Robert H. Haveman, Barbara Wolfe, and Jennifer Warlick, *Disability Transfers, Early Retirement, and Retrenchment.* IRP Reprint no. 489. 1984.

Robert H. Haveman and Barbara Wolfe, *Disability Transfers and Early Retirement: A Causal Relationship?* IRP Reprint no. 499. 1984.

Robert H. Haveman, Barbara Wolfe, and Donald Parsons, *Disability Insurance and the Decline in Male Labor Force Participation: Comment and Reply.* IRP Reprint no. 500. 1984.

Barbara Wolfe, *Cutbacks in Disability Transfer Programs.* IRP Reprint no. 524. 1985.

Robert H. Haveman and Barbara Wolfe, *Income, Inequality, and Uncertainty: Differences between the Disabled and Nondisabled.* IRP Reprint no. 527. 1985.

Issues to resolve

All countries in this study are engaged in reevaluating their disability policies in the context of rising costs and limited resources. According to Haveman, Halberstadt, and Burkhauser, they will have to address a number of crucial issues:

- What is the appropriate level of publicly borne costs on behalf of the disabled, and how should they be allocated? Choices must be made about each system's eligibility criteria, the breadth of protection, tax and benefit structure, and administration.
- What is the appropriate corrective response for disability policy within the context of general employment policy?
- To what extent should a society attempt to alter its socioeconomic structure to make impairments more or less irrelevant to normal functioning? What does "equal access" entail?
- How should disability policy programs relate to programs targeted at other distressed groups, such as the long-term unemployed? Should the disabled receive more generous treatment than other groups among the needy?
- To what extent is there a danger that countries and other political jurisdictions will reduce their benefits to discourage immigration from those jurisdictions with lower benefits?

The authors provide the framework within which to make these choices, but they warn that the choices are difficult ones, and cost-effectiveness considerations provide only part of the answer. The final mix of programs within each country will depend upon a social judgment which takes into account moral commitments, economic conditions, and the well-being of all its citizens. ■

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[1] The Johns Hopkins University Press, 1982. Richard V. Burkhauser and Robert H. Haveman are both affiliates of the Institute for Research on Poverty. Burkhauser is an associate professor at Vanderbilt University; Haveman, a former director of IRP, is a professor at the University of Wisconsin–Madison.

[2] Victor Halberstadt is Professor of Public Finance, Center for Research in Public Economics, at Leyden University. Contributors to the book who describe the disability policy for each country are as follows: Martin Pfaff and Walter Huber, West Germany; Beatrice Majnoni d'Intignano and Jacqueline Repellin, France; Jack Habib, Haim Factor, and Vincent Mor, Israel; Lucia Vitali, Italy; Han Emanuel, Victor Halberstadt, and Carel Petersen, the Netherlands; Eskil Wadensjö, Sweden; and M. J. McCrostie and Alan Peacock, the United Kingdom.

[3] Haveman and Barbara Wolfe have recently completed a project, "Research on Disability and Poverty," supported by the Office of the Assistant Secretary for Planning and Evaluation, U.S. Department of Health and Human Services. The final report consists of four papers: "Disability Status as an Unobservable: Estimates from a Structural Model," available as IRP Discussion Paper no. 775–84; "Income, Inequality, and Uncertainty: Differences between the Disabled and Nondisabled," available as IRP Reprint no. 527; "Disability Transfers and Older Women's Work," by Haveman, Wolfe, and Phillip de Jong, forthcoming as an IRP Discussion Paper; and "Measuring the Economic Costs of Disability," by David M. Betson and Jennifer L. Warlick.

[4] "Discussion" of Robert H. Haveman, "The Dutch Social Employment Program," in John L. Palmer, ed., *Creating Jobs: Public Employment Programs and Wage Subsidies* (Washington, D.C.: Brookings Institution, 1978), pp. 273–274.

Institute Publications on the Economic Circumstances of the Elderly

Kathryn Anderson, Richard Burkhauser, and J. S. Butler, "Work after Retirement: A Hazard Model of Reentry." IRP Discussion Paper no. 768–84.

Kathryn Anderson, Richard Burkhauser, and Joseph Quinn, "Do Retirement Dreams Come True? The Effects of Unexpected Events on Retirement Age." IRP Discussion Paper no. 750–84.

Sheldon Danziger, Jacques van der Gaag, Eugene Smolensky, and Michael Taussig, *Implications of the Relative Economic Status of the Elderly for Transfer Policy.* 1984. IRP Reprint no. 491.

Sheldon Danziger, Jacques van der Gaag, Eugene Smolensky, and Michael Taussig, *Income Transfers and the Economic Status of the Elderly.* 1984. IRP Reprint no. 498.

Karen Holden, Richard Burkhauser, and Daniel Myers, "The Dynamics of Poverty among the Elderly: Income Transitions at Older Stages of Life." IRP Discussion Paper no. 774–84.

Karen Holden, Richard Burkhauser, and Daniel Myers, "Marital Disruption and Poverty: The Role of Survey Procedures in Artificially Creating Poverty." IRP Discussion Paper no. 781–85.

Karen Holden and Richard Burkhauser, "Pensioners' Annuity Choice: Is the Well-Being of Their Widows Considered?" IRP Discussion Paper no. 802–85.

Christine Ross, "Income Transfers to the Elderly, 1967, 1974, and 1981." IRP Discussion Paper no. 760–84.

Christine Ross, Sheldon Danziger, and Eugene Smolensky, "Social Security, Work Effort, and Poverty among Elderly Men, 1939–1979." IRP Discussion Paper no. 785–85.

Jennifer Warlick, "How Effectively Does SSI Guarantee Minimum Income for the Low-Income Aged?" IRP Discussion Paper no. 751–84.

New work under way

The Status of Wisconsin's Children and Youth: Changes in the Quality of Family and Community Life

In a study funded by the Wisconsin Department of Health and Social Services, Sandra Danziger and Michael Sosin of IRP, and John Longres, of the School of Social Work of the University of Wisconsin–Madison, will explore trends and changes that affect the quality of life of children in Wisconsin.

They will select from among available statistical measures (in Census data and state agency data) those that provide the most adequate social indicators of the well- (or ill-) being of children. Among the areas they intend to explore are educational attainment (drop-out rates, truancy rates, test scores, graduation rates); youth employment; child health and mental health; crime and delinquency; and sexuality and family formation. Using available indicators that best reveal the status of children, they will illustrate the ways well-being varies with place of residence (urban, rural, or suburban), ethnic and racial characteristics, poverty, employment and socioeconomic status, and family structure and household composition.

Some attention will be given to the reliance on state social services that families and youth use to deal with their problems. Do the changes in services over time reflect the changing needs of children and youth?

Reliable indicators of the shifting patterns of problems facing children with different demographic characteristics will enable state policymakers to make informed decisions in planning and developing programs for Wisconsin's youth.

The Risk and Timing of Poverty after Retirement

A number of projects have recently dealt with transitions into and out of poverty of the young, in particular women with children. Until now, however, there have been few examinations of transitions among the old.

With support from the Andrus Foundation of the American Association of Retired Persons to the Institute on Aging of the University of Wisconsin–Madison, Karen Holden, University of Wisconsin–Madison, and Richard V. Burkhauser, Vanderbilt University, both affiliates of IRP, intend to use ten years of data from the Retirement History Study to determine what factors are responsible for a decline in the well-being of some households among the retired population as they age. Is their changing situation a result of such circumstances and characteristics at the time of retirement as their state of health, sources of income, and assets? Or are factors such as later changes in health status, inflation, or the death of a spouse more significant?

The use of longitudinal data will enable the researchers to trace the actual path of well-being for aging couples, and in the event of death, for the surviving spouse. Holden and Burkhauser will be able to capture the effect of time on the probabilities of changes in economic well-being. Their results will enable them to draw conclusions about the risks of poverty in old age faced by those not yet retired, and the extent to which preretirement actions can reduce that risk.

This project continues the collaboration of Burkhauser and Holden in the area of retirement studies. For recent Institute papers dealing with the economic circumstances of the elderly, see box.

A Comparative Study of Class Structures and Social Attitudes in Contemporary Industrial Societies

Under the direction of Institute affiliate Erik O. Wright, a long-term project is being carried out to investigate the class structures of contemporary industrial societies and their effects on the social and political attitudes of individuals. Funding to continue the project comes from the National Science Foundation (NSF). The distinctive feature of the project is its use of relational conceptions of class as opposed to the more conventional sociological perspective: that is, instead of such divisions as upper-, lower-, and middle class, Wright uses data on property relations, authority relations, job autonomy, and other relational aspects of work as well as a wide range of other variables, including class origins, past jobs, class of friends and spouse, unemployment history, income, wealth, and social and political attitudes.

The original NSF grant in 1979 enabled Wright to develop, pretest, and field a class-structure questionnaire in the United States and analyze the data obtained. Further support has made it possible to analyze replications of the U.S. survey that have been carried out in Sweden, Finland, Norway, Canada, Great Britain, and New Zealand. Additional countries which are already fielding similar surveys or have expressed an interest in doing so are Italy, Denmark, West Germany, Hungary, Poland, and the USSR.

The analysis of the data will reveal what the structural determinants of variations in class are, and how they vary from one country to another.

A number of more specific questions are being examined as well, such as class mobility in the United States, Sweden, and Norway, both within a generation and from one generation to the next; transformations in class structure in the United States; the effects of family class on class consciousness in the United States and Sweden, and class and the sexual division of labor in the household in the United States, Norway, and Sweden.

Two major projects, one focusing on the measurement of poverty and the other on interactions among work, welfare, and family structure, are among those supported by the Office of the Assistant Secretary for Planning and Evaluation of the U.S. Department of Health and Human Services over the 1985–1987 biennium.

I. Measuring the Level and Trend of Poverty: New Data Sets and New Methods. Principal Investigators: Sheldon Danziger and Eugene Smolensky

This project, composed of three interrelated parts, attempts to refine the measure of poverty and exploit newly available data sets. It examines the accounting period, consumption-based equivalence scales, and the causes of poverty among the working population.

A. *The Time Period, the Level of Poverty, and the Target Efficiency of Transfer Programs: Evidence from the Survey of Income and Program Participation.* Investigators: Martin David and Sheldon Danziger.

The appropriate accounting period for measuring the extent of poverty depends on a normative judgment about the ability of individuals to use income received in one period to offset expenses in another period. The choice of a calendar year contains the implicit assumption that households whose yearly income exceeds the poverty line can save or borrow enough to see them through income fluctuations and shortfalls that may occur during the year. Therefore, in studies utilizing annual data, any transfers such households might receive during these periods are considered to be ineffective in reducing poverty.

The year has been widely used as the accounting period not because it was thought the best measure, but because it was the only one available. New data from the Survey of Income and Program Participation (SIPP) make it possible to explore the antipoverty effects of income transfer programs under other accounting periods, such as the month or the quarter. SIPP also contains much more detailed income data than other surveys, allowing further refinement of poverty measures.

B. *Equivalence Scales and the Level and Trend of Poverty: Evidence from the 1980–1981 Consumer Expenditure Survey.* Investigators: Eugene Smolensky and David Betson.

The official poverty threshold is based on the cost of food consumption. This project will analyze detailed consumption data on all goods and services to evaluate how the threshold would vary if it were to be based on the consumption of all commodities rather than on food alone. The project will use the Consumer Expenditure Survey of 1980–81.

Earlier work by Smolensky and Jacques van der Gaag demonstrated that the composition of the poor differs greatly, depending upon whether total consumption or food consumption is used to define the poverty line. For example, the elderly were found to be much better off on the basis of equivalence scales constructed from all the consumption data rather than from the food data alone. This new research will test the robustness of the earlier findings.

Consumption data are additionally useful because they reveal the extent to which changes in the Consumer Price Index influence poverty. The CPI, which is used to update the official poverty line, may be an imperfect measure, since the market basket upon which it is based may differ from that purchased by the poor. The study will also examine differences in the market baskets consumed by various income groups.

C. *The Trend in Earnings Poverty: Evidence from the Current Population Surveys.* Investigators: Peter Gottschalk, Sheldon Danziger, and Eugene Smolensky.

In an attempt to account for the growing inequality in the distribution of wage income and the rise in poverty among wage earners, Gottschalk, Danziger, and Smolensky will examine the following possible causes: increased labor force participation of women, entry of the baby-boom cohorts into the work force, economic growth, inflation, transfer programs, and deindustrialization (the decrease in the number of manufacturing jobs and the increase in the number of jobs in the service sector).

The researchers will use the 1968–85 March Current Population Surveys in a regression-based accounting strategy to identify which of the possible causes are quantitatively important. Changes in weekly wages and changes in quits, layoffs, and withdrawals will be the dependent variables. The independent variables—the possible causes listed above—will be examined one by one for their impact on components of earnings.

A major goal of this project is to identify which factors that affect poverty among wage earners are sensitive to policy interventions and which are not.

II. Welfare, Work, and Family Structure: The Antipoverty and Efficiency Effects of Income Transfers. Principal Investigators: Sheldon Danziger and Eugene Smolensky

This four-part study addresses many of the problems related to poverty in female-headed households and to the government initiatives designed to allay it.

A. *Trends in Child Support, 1978–1983.* Investigators: Philip Robins and Irwin Garfinkel.

A Child Support Enforcement Program was passed by Congress in 1975 and has since been strengthened by a series of amendments, culminating in the 1984 amendment which instituted mandatory wage withholding for noncustodial parents who are delinquent in their child support payments. Robins and Garfinkel will analyze trends in child support during the period 1978–83 to determine the effectiveness of enforcement policies over this period. They will analyze three April supplements to the Current Population Surveys, covering the years 1978, 1981, and 1983, using pooled cross-section time-series regression models to estimate changes in child support award and recipiency rates from 1978 to 1983 that adjust for changes in economic and demographic characteristics.

Robins and Garfinkel will next explore the potential for collecting child support from absent parents—at the national level—and estimate the effects such collection will have on the economic situations of both the family receiving the payment and the family paying it. Overall, is there less poverty? Are AFDC costs reduced?

The methodology for this task entails creating a synthetic group of noncustodial fathers and estimating their income, marital status, and parental status. Child support payments, based upon two standards (The New York Community Council Guidelines and the Wisconsin Percent-of-Income Standard) will then be deducted from the incomes of the noncustodial parents and added to the incomes of the custodial families. Changes in the well-being of these two groups and the cost of AFDC will then be measured.

Another result of changes in child support amounts and enforcement will also be examined: behavioral effects. Increases in the level of child support awards and the enforcement of obligations will make divorce more costly to the noncustodial parent and less costly to the custodial parent. The researchers will attempt to specify behavioral models to predict the effects of improved support on family stability. If legal requirements stipulating post-marriage transfers reduce the number of marital splits, this in itself is an important argument for new, more stringent approaches to the problems of child support.

The model of marital behavior to be constructed will take into account the labor supply of the spouses, fertility behavior, and potential for marital disruption.

B. *Factors Affecting the Probability That Recipients Will Work Their Way Off of AFDC.* Investigators: Peter Gottschalk and Douglas Wolf.

Since a major goal of welfare policy is to make recipients self-sufficient, the transition from welfare to work holds the key to any evaluation of changes in the AFDC program. Gottschalk and Wolf will construct a job-search model that focuses on transitions from welfare receipt without work to welfare plus work to being off of welfare. The empirical model will take into account differences in demand for the skills of AFDC recipients across time and across individuals and changes in the AFDC program (for example, the four-month period after which the $30 and one-third disregard is dropped for employed recipients).

A new data file will be constructed, making use of the Computerized Reporting Network (CRN) of the state of Wisconsin, which will contain a random sample of AFDC case openings. Because the sampling of case openings will provide the dates of beginnings of spells of welfare and of work and welfare, the model will not have to correct for length-biased sampling.

The cases will be followed from month to month and will enable the researchers to estimate the impact of economic and demographic factors on the probability of starting work while on welfare and the probability of leaving welfare. Gottschalk and Wolf expect to provide more reliable estimates of the duration of AFDC recipiency, how that duration varies across groups, and how it is changed by policy.

C. *Effects on Family Stability in the Seattle-Denver Income Maintenance Experiment.* Investigator: Glen Cain.

A widely publicized result of the Seattle-Denver Income Maintenance Experiment was that income transfers to husband-wife families induce marital dissolution. Glen Cain, who served on a federal panel to review the experimental data, points to evidence to dispute this result. In summarizing the effects of a negative income tax (NIT), he examined the "pure" NIT (transfers alone) for couples with children and found no destabilizing effects on marriage. The original investigators drew their conclusions based on an analysis that lumped together the pure NIT and one combined with job counseling and training.

Cain hypothesizes that it was not the NIT but the training programs which led to marital dissolutions among low-income families. According to Cain the enhanced self-support in the labor market that is expected from training programs provides a much stronger, more secure, socially approved, and self-gratifying form of financial independence than do transfers. Thus the inducement to marital dissolution from these programs is likely to be much stronger than that associated with transfers. Moreover, the transfers do not necessarily offer a benefit that is of any greater value than the benefits that are already available in the existing welfare system, whereas the training program was a new and additional benefit.

Cain intends to use the original data to replicate the results of the Final Report of the study and then examine three subprograms separately: a pure NIT, a counseling and training program, and an NIT combined with counseling and training. He will carry out further separate analyses of families with and without children, the three main ethnic groups (whites, blacks, and Chicanos), and the two duration groups (those who participated for five and three years). Each analysis will entail estimating the experimental effect for each of the three program treatments compared to a control group and estimating the effect of the level of generosity of the experimental treatments. He will make additional adjustments and qualifications to his statistical results to deal with the problems of attrition, fraud, and the short duration of the experiment, and carry out an analysis of the sensitivity of different statistical models for estimating the experimental effects.

D. *The Effects of AFDC on the Labor Force Behavior of Men, on State Fiscal Responsibility, and on Welfare Dependence.* Investigator: Robert Moffitt.

Many hypothesized effects of AFDC have not been adequately studied. Robert Moffitt will investigate three: whether AFDC has any effects on the labor force behavior of men; the connection between the trends of increasing federal aid to the needy (particularly in-kind transfers) and the reduction in the value of the AFDC benefits paid by states, and the dynamics of welfare dependency.

Studies have been made of the potential for the AFDC system to affect women's decisions to head their own households. If AFDC benefits have this effect on women, we should observe fewer men remarrying, fewer men who marry in the first place, and more in a marriage or nonmarital union that dissolves. It is known that married men and those who support children work longer hours and have higher wage rates, employment rates, and labor force participation rates. Is the AFDC system indirectly acting to depress the labor force attachments and performances of men as well as women?

Moffitt will use data from the March Current Population Surveys from 1967 to 1984 to discover the extent to which male labor force behavior is correlated with the AFDC benefit level both across states and over time. Data files will be assembled for each year, containing benefit levels, demographic information, and various measures of labor force behavior. The causes of the various labor market effects will be isolated. Next a comparison across years will be performed. Do effects remain the same, or do they increase over time? To what extent are changes in labor force behavior of men a function of changes in the AFDC benefit and other variables?

Moffitt's second and third projects will make use of a data set he constructed to measure the effect of the AFDC program on the work effort of female heads of families.

Analysis of the trends in state and federal programs from 1967 will give a full picture of how state AFDC benefits altered as federal programs grew—especially Food Stamps and Medicaid. Moffitt will examine the matching rates (the proportion paid by the state and the proportion paid by the federal government) of AFDC, Food Stamps, and Medicaid. Can they be manipulated or changed in a way that will induce states to pay a larger share?

Finally, Moffitt will investigate the determinants of AFDC dependency. Participation rates have gone through dramatic swings, rising in the late 1960s and early 1970s, stabilizing in the mid-1970s, and declining in the later 1970s. The usual separate explanations for these two phases of the cycle are that the increase in rates was caused by changes in attitudes toward welfare and court-induced liberalization of the rules, whereas the decrease in rates is the result of the decline in real AFDC benefits. But a number of questions such as the following have not been addressed until now: How strongly are participation rates across states correlated with AFDC benefits? Has the correlation changed over time? Were women "more responsive" to AFDC benefits in the 1960s and early 1970s than later? Such other determinants of dependency as wage rates, job opportunities, unemployment rates, education, age, and so on, will also be explored to determine how they vary from state to state over the 1967–83 period. ■

Medicaid: The cost of deficient information

(continued from p. 15)

costs to providers are less than half a million, but imperfect information costs them $72.5 million. For Wisconsin, then, the bottom line of all expenses resulting from deficient information is $75 million a year.

The research team then compared aggregate Medicaid expenditures in other states. In 1982, the average expenditure on Medicaid in the other states, excluding Arizona (which has a different system) and including the District of Columbia, was .795 the size of Wisconsin's expenditures. If the average dollar loss resulting from deficient information in those 49 other jurisdictions was considered to be .795 times Wisconsin's loss, the total amount of deficient-information costs, extrapolated nationally from the Wisconsin estimation, would be about $3 billion a year. To justify this extrapolation, Andreano's group surveyed twelve other states in more detail and found that program procedures and statistics on the rejections of claims, billing and processing lags, and volume of provider inquiries in those states indicated that the cost estimates for Medicaid in Wisconsin were not atypical. They concluded that improvement in information exchange may hold promise for considerable reduction in costs of the Medicaid program.

Yet the introduction and operation of such technological improvements also cost money. Noting that some states are implementing automated procedures in Medicaid, the researchers recommended that individual states carefully evaluate existing or proposed automation systems and compare the costs of these interventions with the expected reduction in information costs to determine the magnitude of benefits or losses. ■

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[1] Ralph Andreano, Eugene Smolensky, and Thomas Helminiak, "The Economics of Information Exchange and Automation in Third-Party Insurance: A Study of Medicaid in Wisconsin," IRP Discussion Paper no. 792-85.

The socioeconomic status of Native Americans: A special policy problem

The study of poverty among American Indians poses a number of problems because of the unique history and circumstances of this group of Americans. Unlike other minority groups, Indians have a special legal status. A federal agency, the U.S. Bureau of Indian Affairs, oversees their well-being, the Indian Health Service provides free health care to them, and other programs, such as the Wisconsin Relief to Needy Indian Persons program, are designed specifically to aid them. On the reservations Indians are frequently governed by tribal leaders rather than by county or state officials, and these tribal governments administer welfare, job training, and other social services.

In addition to the special programs designed for them, Indians are entitled to participate in the various programs for all of the needy: Aid to Families with Dependent Children (AFDC), Supplemental Security Income (SSI), General Assistance, Food Stamps, and school lunches. Yet for all this attention directed toward a group that consists of a mere 0.7 percent of the population, there is much hardship. According to the 1980 Census, 27 percent of American Indian households were below the poverty line, and among them were the poorest of the poor: Indian couples have been found to be poorer, less educated, and more geographically isolated than any other couples.[1]

Gary D. Sandefur of the Institute for Research on Poverty has been studying the American Indian population for a number of years. His work, which includes an examination of the 1980 Census data, has revealed much that runs counter to common preconceptions about Native Americans. The most recent figures show, for example, that only 25 percent of the Indian population live on reservations, while 54 percent live in urban areas. This is in contrast to the beginning of the century, when virtually all Indians lived on reservations.

Intermarriage between Indians and whites is widespread. According to Sandefur, married Indian men and women are as likely to be married to whites as to one another. In this they differ greatly from blacks. Whereas only 0.8 percent of black women were married to white men in 1980, 48.4 percent of Indian women were.[2] Furthermore the number of people classified as Indians in the population grew between 1960 and 1970 by 51 percent, and between 1970 and 1980 by 79 percent. This growth was in part because Americans who formerly had reported themselves as "white" in Census counts changed their self-reported classification to "Native American." Some people may be claiming their Indian identity in order to benefit from special programs. On the other hand, these changes in self-identification from white to Indian may be part of the general resurgence of ethnic identity in the United States.

The socioeconomic situation of the American Indian appears to be improving, though this may be due in part to changed classifications among these new Indians. In 1960 the median income of the American Indian man was 43 percent of the white man's median income. By 1980 it was 62 percent. In this same period, the median income of blacks advanced from 50 percent to 60 percent of white median income.[3] Both median and mean per capita household incomes of Indians were slightly higher than those of blacks in 1980, with the exception of households with children headed by couples and "other" family households (see Table 1).

Indians in the labor force

In a pair of studies, Sandefur and Wilbur J. Scott of the University of Oklahoma[4] found that although the average wages of Indian men are significantly lower than average white men's wages, most of the difference can be explained by factors such as location and human capital characteristics of the Indians. They conclude that there are few differences in the way wages of whites and Indians are determined in the American labor market, once we account for the lower levels of human capital, geographical isolation, and overrepresentation of American Indians in less favorable occupations and industries.[5] They suggest that there is a great need for programs to improve educational levels and health conditions among Indians and that affirmative action may be less important for Indians than for blacks as a mechanism for increasing earnings:

Table 1
Mean/Median Per Capita Household Total Income for Each Household Type, by Race (figures rounded to the nearest dollar)

Household Type	Indian Households	Black Households	White Households
Families			
Married couple, no children	$8155/6755	$7069/5607	$10,566/9010
Married couple, with children	4723/4028	4763/4167	6440/5702
Mother-child	2595/1823	2536/1751	3624/3019
Father-child	4890/3937	4046/3370	6728/5915
Other family	4627/3515	4733/3604	7811/6498
Nonfamilies			
Men living alone	9808/7610	9375/7505	13,584/10810
Women living alone	6593/4520	6190/3980	8671/6250
Multiperson	9989/7950	8470/6615	11,335/9130

Source: U.S. Census, 1980, Public Use Microdata Sample A, 5 percent sample.
Note: Indian household: Household head and/or spouse is Indian. Black household: Household head is black. White household: Household head is white and spouse is not Indian.

Publications on Native Americans

Gary D. Sandefur and Wilbur Scott, "A Sociological Analysis of White, Black, and American Indian Male Labor Force Activities." IRP Discussion Paper no. 765-84. Forthcoming in *Research in Race and Ethnic Relations,* vol. 5, Cora B. Marrett and Cheryl Leggon, eds. (Greenwich, Conn.: JAI Press).

Gary D. Sandefur and Trudy McKinnell, "Intermarriage between American Indians and White Americans: Patterns and Implications." Center for Demography and Ecology Working Paper no. 85-26, University of Wisconsin-Madison, 1985.

Gary D. Sandefur, "The Relationship between Migration and Labor Force Participation for American Indian and White Couples." IRP Discussion Paper no. 795-85. Forthcoming in *International Migration Review.*

Gary D. Sandefur and Arthur Sakamoto, "Income Sources and Program Participation of American Indians." IRP Discussion Paper, in preparation.

> It is hard to escape the conclusion that blacks experience a great deal of *current* discrimination in the wage-setting process that is not experienced by American Indians. The *past* discrimination experienced by American Indians has placed them in isolated regions of the country, with few opportunities to work in core industries or nonmanual occupations, has promoted poor health, and has led to inadequate educational opportunities.[6]

When it comes to hours worked, the difference between blacks and whites disappears when adjustments are made for human capital measures, location, and other variables that affect labor market participation, but the difference between Indians and whites persists. Whether this difference is cultural or the result of some variable not taken into account is not known. Anthropologists have shown that Indians do place more emphasis on nonwork roles than do white Americans. Or it may be that the rural location of Indians, relative to whites and blacks, results in fewer opportunities to work.[7]

Migration

If much of the disadvantaged position of the Indian has to do with location, is migration the solution? From the 1950s through 1984, the Bureau of Indian Affairs had a program to assist Indians who wished to relocate from rural and/or reservation areas to such metropolitan sites as Chicago, Cleveland, Dallas, Denver, Los Angeles, and Oakland, where jobs were presumably available. The program, which was no doubt designed to redress in part the injustices of an earlier time—when all Indians were forcibly removed to reservations and prevented thereby from participating in the economic growth of the nation—has had mixed results. Sandefur and C. Matthew Snipp of the University of Maryland made use of the 1980 Public Use Microdata Sample (PUMS) file drawn from the U.S. Census and found that although urban Indians are more likely (slightly over 6 percent) to be in the labor force than rural Indians, there is no difference in median weeks worked. Nor are there higher median earnings. It appears that at least in the short run (the first five years) migration to the city does not yield economic benefits. Migration to urban areas per se, the authors conclude, is an insufficient condition for improving the economic status of the American Indian. The mere fact of migration will not make a disadvantaged person more employable. It is likely as well to have some negative impact on the culture and cohesion of the Indian population.

The Wisconsin study

How then do we go about helping disadvantaged Indians? It would seem to require detailed examination of those Indians who are in need of assistance and the tailoring of programs specifically for them. Sandefur is now engaged in such a project in Wisconsin.

The 30,000 Wisconsin Indians (0.6 percent of the population) are among the neediest inhabitants of the state. Under a two-year contract with the Wisconsin Department of Health and Social Services, Sandefur has undertaken to examine their economic well-being, compare the conditions of female-headed households with those headed by men, and compare Indian households with those in other states and with other ethnic groups. Making use of the national 5 percent Public Use Microdata Sample of the Census for 1980, he is examining such specific factors as whether residential location has an impact on the participation of Indian women in AFDC and whether participation rates, levels of support, and particular determinants of poverty (e.g., educational level, health status, migration status) differ among Indians, Hispanic, black, and white women.

This study should be useful in both assessing and addressing the causes of poverty among Indian women. ■

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1 Gary D. Sandefur and Trudy McKinnell, "Intermarriage between American Indians and White Americans: Patterns and Implications," Center for Demography and Ecology Working Paper no. 85-26, University of Wisconsin-Madison, p. 32.

2 Ibid., p. 14.

3 Sandefur and Arthur Sakamoto, "Income Sources and Program Participation of American Indians." In preparation.

4 "Minority Group Status and the Wages of Indian and Black Males," *Social Science Research, 12* (1983), 44-68, and "A Sociological Analysis of White, Black, and American Indian Male Labor Force Activities," IRP Discussion Paper no. 765-84, University of Wisconsin-Madison.

5 "A Sociological Analysis," p. 32.

6 Ibid., p. 33.

7 Ibid., pp. 37-39, passim.

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